

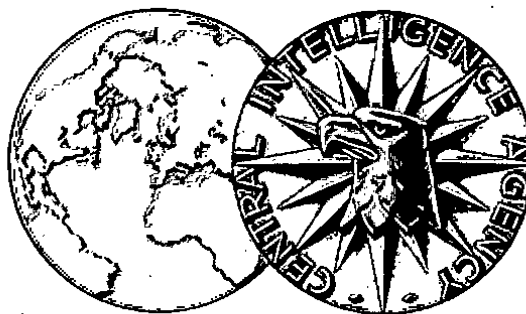
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WEEKLY SUMMARY

Number 98

14 APR 1950

F-22

Document No. 001NO CHANGE in Class. ☐☒ DECLASSIFIED

Class. CHANGED TO: TS S C

DDA Memo, 4 Apr 77

Auth: DD REG. 77 183

Date: 31-1-78 By: 013

CENTRAL INTELLIGENCE AGENCY

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H I G H L I G H T S

The development of friendlier Italo-Yugoslav relations appeared no closer this week as the long stalemated issue of Trieste once again inflamed popular feeling in both countries (see page 3). During preliminary efforts to lay the groundwork for Italo-Yugoslav negotiations on Trieste, Yugoslavia made it clear that it would insist on retaining Zone B, and political considerations still prevented Italy from openly negotiating on any other basis than the Western-sponsored 1948 proposal that all Trieste be ceded to Italy.

In other areas of the world, no startling changes occurred in the situations most directly affecting US security. A review of Chinese Communist relations with the nations of Southeast Asia reveals that the Peiping regime is gradually strengthening its ties with local Communist movements and attempting to weld the Overseas Chinese communities into useful instruments of Chinese Communist policy (see page 5).

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WESTERN EUROPE

UNITED KINGDOM

Political Situation The present state of political tension in the UK, caused by the narrow margin between Labor and the Conservatives, will continue during the life of this Parliament, but neither party is likely to precipitate a new election soon. No serious new issue has arisen upon which to base an election campaign, and a new election now would probably not turn out much differently than the last one. In the meantime, the Labor Government, continually harassed by the Conservatives, will remain irresolute on controversial domestic issues while vigorously pursuing a foreign policy which will enjoy broad Conservative support. So long as Prime Minister Attlee can marshal his party for important votes, the government will probably be able to win votes of confidence and to forestall resignation until the fall, when Parliament reconvenes, or even until the early spring of 1951. It is always possible, however, that new elections may become necessary before then if a critical issue should suddenly arise or if deaths should reduce Labor's slim majority in Parliament.

Dollar Position The gold and dollar reserve position of Great Britain and the sterling area showed a marked improvement in the first quarter of 1950 over the last three quarters of 1949. Reserves reached \$1,984 million, a figure higher than a year ago and close to what is regarded in the UK as the minimum safe working balance. Moreover, for the first time since before the war the area had a net earned dollar surplus. This quarter's gains, however, do not necessarily indicate a lasting trend. They were caused in

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SECRET**UNITED KINGDOM**

part by such factors as: (1) delayed payments for goods bought before devaluation; (2) replenishment by the US and Canada of stocks of sterling area goods depleted in anticipation of lower prices after devaluation; and (3) sales of such commodities as wool and cocoa, which were at seasonal highs during this quarter. Nevertheless, there are solid and lasting reasons for the improvement. Large economies in sterling area dollar expenditures are beginning to take effect, Britain's hard currency deficits with Switzerland, Belgium, and Iran have been eliminated or sharply reduced, and receipts from "invisible" accounts have risen.

TRIESTE

Crisis Possible The long stalemated issue of Trieste has once again flared into the open, and the danger exists that strong Yugoslav and Italian feeling over the disposition of the territory may provoke a crisis which would not only impede the development of closer Italo-Yugoslav relations but would be detrimental to US interests in the Adriatic area. During preliminary efforts to lay the groundwork for Italo-Yugoslav negotiations on Trieste, it has been made clear that Yugoslavia will insist on retaining all of its zone while agreeing to Italian possession of Zone A, including the city of Trieste. Italy, however, continues to insist that negotiations be on the basis of the Western-sponsored 1948 proposal to return all of the Free Territory to Italy. The recent publicity given the issue has inflamed popular opinion in both countries and has increased the difficulty of a compromise. Yugoslav prestige is at stake,

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SECRET**TRIESTE**

and the Yugoslavs feel confident that the West will not resort to force to eject Yugoslavia from Zone B. Meanwhile, Italian public opinion is becoming so aroused over the possibility that Yugoslavia might annex Zone B that the Italian Government cannot afford the risk of concessions at this time, particularly in the face of the growing Communist threat to its stability and the ability of the Communists to exploit any weakening of the Italian position on Trieste. Although the stand taken by Italy and Yugoslavia thus appears to have crystallized, neither country wishes to let the situation get out of hand. The Italians are aware of Yugoslavia's strategic and political significance in the cold war, and the Yugoslav leaders do not want to alienate Western support at this juncture in their fight against the Cominform. Formal negotiations aiming at a de jure settlement, however, will probably be shunned by both parties because of fear of serious domestic repercussions.

GERMANY.

Land Elections The Land elections in West Germany, which begin in June 1950, will probably reflect the growing swing to the right in the three Western Zones and will reduce the stability of the Adenauer Government. Much of the large refugee vote will go either to the newly-established extremist and irredentist parties or to existing right-of-center parties and independent candidates. In any case, the strength of the moderate parties will be reduced, and they will be under strong pressure to enter into coalitions in the Land governments with rightist groups. Such a development might alienate left-wing elements of the Christian Democratic Union and thus reduce Adenauer's strength in the Federal Government.

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SECRET**COMMUNISM IN SOUTHEAST ASIA**

The Chinese Communist regime in Peiping is already taking active measures to support the "national liberation" movements throughout Southeast Asia. Moral and material aid is being furnished in varying degrees and in general the Chinese Communists are strengthening their ties with local Communist movements and are gradually welding the Overseas Chinese communities into useful instruments of Chinese Communist policy. The degree of Communist penetration and current trends in Chinese Communist relations with the several Southeast Asian states are summarized below.

Indochina Although the Ho regime has been receiving some support from the Chinese Communists in the form of arms deliveries and the free movement of resistance troops back and forth across the China border, there is no firm evidence that the Chinese Communists are moving their own troops across the border or planning to do so in the near future. Politically, the Chinese Communists and the Ho regime have accorded each other de jure recognition, but have not as yet exchanged diplomatic missions or concluded any form of treaty or agreement. Steps may soon be taken (or may already be in process) to formalize these relations; when this occurs, Chinese Communist support for the Ho forces will probably increase.

Thailand Thailand has not recognized the Peiping regime and has shown, of late, a rather firm disposition to resist Communist psychological pressure. The Peiping regime does not appear especially interested in establishing diplomatic relations with Thailand, even though such a move could facilitate the acquisition of Thai rice. Within Thailand,

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as elsewhere in Southeast Asia, the Overseas Chinese community continues to be a special target of Chinese Communist propaganda and organizational activity. Communist agents are proceeding with a program of infiltration, not only of the Chinese community, but also of trade unions, youth groups, and other organizations which can be exploited to the disadvantage and embarrassment of the Thai Government. If Thailand should receive US military aid or participate in a non-Communist association of Asiatic states, the Chinese Communists would increase their pressure on Thailand through propaganda, and possibly through the stimulation of internal disturbances.

Malaya There is evidence that the Chinese Communists have been infiltrating agents into Malaya to support the terrorist movement and to gain influence in trade unions and other organizations. The Malayan Chinese, who make up nearly half the total population of the Malayan peninsula, are responding favorably to Chinese Communist efforts to win support and sympathy for Peiping, and the morale of the terrorists appears to have risen somewhat as a result of the growing prestige and aggressiveness of the Chinese Communists. Chinese Communist support for the "liberation" movement in Malaya, however, is complicated by the fact that the terrorist organization is composed almost exclusively of Chinese and is opposed as much by the native Malaysians as by the British, with the result that Communist propaganda in favor of Malayan nationalism has a rather hollow sound. The campaign to win the Chinese half of the population to the Communist cause will continue in vigorous fashion and will succeed in proportion as the Peiping regime can solve its internal problems and maintain the prestige of a dynamic political movement. There is, however, no early prospect that the Chinese Communists will recognize the terrorists as the "government" of the Malayan peninsula.

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Burma Burma recognized the Chinese Communist regime on 17 December 1949, but the establishment of diplomatic relations between the two governments has not yet been accomplished. As a result of the establishment of a "purified" Burmese Communist regime at Prome, the Peiping regime may stall on the formalization of its relations with Burma in the hope that the Prome regime survives and flourishes. Peiping may then recognize that regime as the "government" of Burma, and ignore the Rangoon authorities altogether.

Indonesia Although the USI on 4 April 1950 received a communication from Peiping expressing the Chinese Communists' willingness to establish diplomatic relations with the new republic, and Premier Hatta expressed agreement to such a step, the Chinese Communists have made no further moves in this direction, nor have they given any publicity to the matter. Despite internal instability, the USI does not appear to be vulnerable in any important degree to armed Communist activity, nor could armed groups receive significant assistance from the Asiatic mainland. Communist strategy for the USI appears to turn on the establishment of diplomatic relations with Jakarta and the eventual staffing of Soviet and Chinese Communist missions there, from which organizational and propaganda work will be carried on among both the Overseas Chinese and native Communist and leftist movements. The USI will delay the actual exchange of diplomatic missions with both the USSR and the Peiping regime as long as possible because of a keen awareness among many USI officials of the dangers of allowing Communist officials from abroad to establish direct contact with local dissident elements.

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The Philippines The Philippine Government has not recognized the Chinese Communist regime and has given no indication that it will do so in the near future. The Philippine response to the establishment of a Communist state on the Chinese mainland has been mainly one of fear that the Overseas Chinese in the Philippines would align themselves with the Chinese Communists and become a menacing fifth column within the islands. The Quirino regime has taken steps to restrict Chinese immigration sharply and to deport Chinese who are under suspicion for illegal entry or subversive activities. There are some indications that the civil liberties of the Chinese community may be seriously abridged, a development which would draw the full wrath of the Chinese Communist propaganda machine. While conclusive evidence of direct Chinese Communist support for the local Huk rebellion in the Philippines is lacking, it is almost certain that some liaison exists.

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F A R E A S T

CHINA

Airplane Dilemma Several recent developments suggest that the British, faced with the continuing dilemma of the disputed aircraft and spare parts still at Hong Kong, may have decided to keep the planes grounded indefinitely in an attempt to reduce US pressure on the US to deny the planes to the Communists. The aircraft have been completely defueled and the Hong Kong Director of Civil Aviation, speaking as a private individual, has stated that he could and would prevent the movement of the aircraft and parts until their disposition is settled. The official is already attempting to work out an interim agreement among the Chennault interests, the Nationalists, and the Communists under which the aircraft would remain grounded indefinitely. Moreover, a political adviser to the Hong Kong Government has expressed his personal view that if the US Government maintains a "stiff attitude" toward the situation, the UK may devise some over-all plan to deny the aircraft to the Communists while saving face for the Hong Kong courts.

If the British have decided to abandon their previous position that the issue could only be settled through legal channels, they may now believe that the Communists: (1) may no longer take retaliatory action because they have already received a large portion of the spare parts from Hong Kong; and (2) may be somewhat less eager to obtain the planes because they hope to obtain transport aircraft elsewhere. The UK, on the other hand, may have decided to use the aircraft issue as a bargaining lever in the protracted negotiations in Peiping for establishment of normal diplomatic relations.

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CHINA

Sinkiang Status The thirty-year pact establishing two joint Soviet-Chinese companies in Sinkiang points to the special Soviet interest in this mineral-rich province as well as to the Kremlin's desire to obtain the same degree of economic control over Sinkiang's economy as it exercises over its European Satellites. Although the area has never been developed, Sinkiang is believed to contain the richest of China's meager oil deposits and also possesses other mineral resources, including non-ferrous metals. The joint companies established to develop these resources are similar in nature to those in the European Satellites and provide the USSR with a basis for gradually extending its control over the entire Sinkiang economy.

INDOCHINA

Cabinet Shift Although there has been little change in the military stalemate between the French and the forces of the Vietnamese resistance, recent political developments have not been altogether favorable to the French. The French-sponsored Emperor Bao Dai, who has been facing both Cabinet resignations and an intransigent attitude on the part of Premier Long, has privately stated that he will soon replace Long with Tran Van Huu, the able Governor of South Vietnam. Although Huu, a French citizen, is expected to work more constructively with the French in the administration of US military and economic aid to Vietnam, his known opposition to a unified Vietnam, together with his past association with the French, is likely to make him suspect in the eyes of many Vietnamese nationalists. Unless Huu is able to dispel such apprehensions, popular support for his administration is doubtful.

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INDONESIA

Makassar Revolt Although the situation at Makassar remains confused following the recent uprising, the political tension which was the basic cause of the revolt appears to have subsided. Representatives from the East Indonesian, Republican, and USI governments, meeting on 10 April, agreed that the Republic and East Indonesia would continue to exist side by side until an over-all national decision could be reached on the crucial question of whether East Indonesia must submit to amalgamation into a "unitary" state. With all official statements deploring the revolt against USI authority, a peaceful political settlement of the Makassar uprising is possible. If such a settlement is not forthcoming, however, the USI is prepared to undertake large-scale punitive action in order to settle the Makassar affair.

MALAYA

Bandit Activity The recent "Anti-bandit Month" campaign waged by British security forces aided by 400,000 volunteers failed to make any appreciable inroads on the 3,000 bandits still active in various parts of the country. Seriously concerned over the steadily deteriorating situation in Malaya, British authorities are planning to develop an auxiliary police force to relieve regular forces for operational duty, reinforce present troops with units from Hong Kong, and obtain additional aircraft, including heavy bombers, from Great Britain.

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WESTERN HEMISPHERE

BOLIVIA

Communist Plot The announcement of the discovery of a Communist plot against the government appears to be merely a new stage in the Bolivian Government's current campaign to combat all opposition groups by connecting them with alleged Communist plots. By such charges, the government also hopes to quiet increasing labor unrest and to impress the US with Bolivia's need for financial assistance. Although many aspects of the Bolivian situation are propitious to Communist activity--the unfavorable reaction to the recent currency devaluation, a threatened general strike, and the unfavorable prospects of the Bolivian tin industry--the Communists in Bolivia are still not strong enough to constitute a serious threat to the government. Their only importance at this time is the contribution they can make to the already powerful opposition to the present government.

ECUADOR

Regime Threatened Confronted with growing popular discontent and serious economic difficulties, the pro-US Galo Plaza administration in Ecuador continues in office largely because the army and civilian groups conspiring against it are still divided and no single one is strong enough to overthrow the government. Although economic conditions may eventually improve as the quantity and quality of Ecuador's exportable agricultural products improve, present economic prospects are poor because of such recent developments as: (1) severe floods in March

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ECUADOR

that paralyzed rail transportation between Guayaquil and Quito; (2) the plans of the Shell Oil Company to end explorations in the Oriente unless sufficient oil is found by the end of April; and (3) the fact that the South American Development Company, which employs 20,000 persons, will soon terminate its gold mining program. Focal point of anti-government activity is a newly formed political party (Partido del Pueblo) led by Carlos Guevara Moreno, who is backed by Guayaquil bankers and businessmen. Col. Alfaro, Deputy Chief of the Armed Forces, is another threat. In addition to stirring up trouble within the army, he has recently made an alliance with the Socialist Party and can probably count on some support from left-wing members of the Liberal-Radical Party. Although increased unrest and dissatisfaction could provoke a revolution at any time, it is unlikely that the two leading opposition groups will get together in the immediate future.

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SECRET**FRENCH ECONOMIC PROBLEMS**

Despite impressive gains in economic recovery, France must still overcome numerous basic obstacles if it is to have a stable and self-supporting economy by 1952, when the European Recovery Program ends. The danger of renewed inflation is the most serious economic problem facing the government, which must also find means of lowering production costs, augmenting dollar earnings, and curbing the revival of cartels, which are likely to render trade liberalization measures less effective.

Implementation of the French Assembly resolution of 28 March calling on the government to ease credit restrictions will assist small and medium enterprises in meeting higher tax and wage payments, but is also likely to give new impetus to inflationary pressures. The government, influenced by strong support for the proposal from the Radical Socialists and by popular apprehensions that unemployment (still negligible) will continue to rise, has already authorized the Bank of France to raise rediscount ceilings.

Premier Bidault's productivity bonus proposal has focussed attention on the need for increasing efficiency in all economic activities. For example, deeply-rooted obstacles which are responsible for the fact that French industrial productivity is only one-fourth that of the US must be overcome. These factors include: (1) the general conviction in labor ranks that increased efficiency will lead to unemployment; (2) the tendency, especially of small businessmen, to prefer restricted operations at high unit costs and profits; and (3) the magnitude of the technical and institutional reforms necessary to increase plant efficiency and production. The Bidault proposal has, however, emphasized the urgent need for increasing productive efficiency as the only effective means of raising the standard of living.

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French efforts to augment dollar earnings will be largely unsuccessful not only until productive efficiency can be increased but until other long-range reforms in the French economy can be accomplished. French businessmen must be educated to the concept of mass production and sales rather than of limited but sure markets. Moreover, administrative export procedures must be simplified and raw material production developed in the Overseas Territories.

Another threat to greater efficiency in French production and full economic recovery is the increasing support in France for the revival of the prewar system of European cartels. Powerful French business interests as well as labor are still firmly wedded to the belief that unlimited competition will be detrimental to their interests. The steady growth of cartels, by keeping production costs high and perpetuating weak industries, will impede the liberalization of trade and the rationalization of production in Europe.

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